

KENTUCKY ECONOMIC INDICATORS

May 2006 Indicators as of July 26, 2006

KY Composite Index of Leading Indicators decreased 3.5 percent in May.

The Leading Index decreased for the second consecutive month.

- The Leading Index rose by 0.4 percent over the same month last year.
- Component indicators were mostly negative, 1:4.
 - KY Labor Intensity Index decreased 0.7 percent.
 - KY Index of Initial UI Claims decreased by 12.4 percent.
 - + US Retail Sales increased 1.6 percent.
 - US Manufacturer's New Orders Index decreased 1.6 percent.
 - Louisville Help Wanted Index declined 4 points to 35.

Component weights for May are 61.64, 17.31, 12.48, 6.54 and 2.03 respectively.

KY Composite Index of Coincident Indicators increased 0.8 percent in May.

- The Coincident Index is positive for the ninth consecutive month.
- Same-month-last-year growth is positive for the thirty-fourth consecutive month at 2.0 percent.
- Component indicators were mostly positive, 2:1.
 - + KY Nonagricultural Employment increased 1.5 percent.
 - + US Industrial Production Index increased 1.8 percent.
 - US Personal Income Less Transfers decreased 1.3 percent.

Component weights for May are 40.47, 25.20 and 20.84 respectively. Component weights do not sum to one because the two US components were discounted to give the Kentucky component more weight.

The Kentucky Leading Index fell by 3.5 percent in May. This is the third decline in four months. The US Leading Index also recorded its second consecutive decline in May. This is cause for concern as many indicators at both the national and state level have been soft for the last four months. The Kentucky Labor Intensity Index, which carries approximately 61 percent of the weight in the Leading Index, has declined for the second consecutive month.

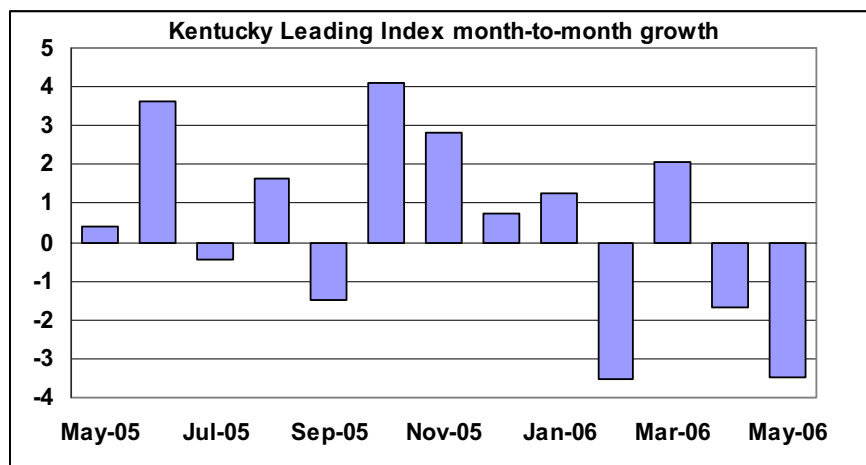
Employment in four of the five manufacturing industries in the Kentucky Labor Intensity Index declined in May. Meanwhile, average weekly hours declined in only two of the five manufacturing industries in May. Four of the five components of the Labor Intensity Index had offsetting employment and average weekly hours changes. As a result, the net movement in four of the five components was near zero. For the most part, the May Labor Intensity Index component changes were small with the exception of the changes in Wood Products industry. Wood Products employment fell by a seasonally adjusted 0.27 percent from April. Wood Products average weekly hours fell by a seasonally adjusted 1.0 percent from April. These two components combined produced enough weight to bring the overall Labor Intensity Index negative. Otherwise the series would have been flat for May. The Labor Intensity Index has hovered around the 105.0 mark since August 2004, with no significant movement in either direction.

The Kentucky Index of Initial Unemployment Insurance Claims also fell for the second consecutive month. The UI Index is composed of two components, Kentucky First Pays and US Initial Claims. Both were responsible for the strong decline in May. Kentucky First Pays increased by a seasonally adjusted 13.0 percent, while US Initial Claims increased by 5.9 percent. US Initial Claims, being the more stable of the two subcomponents, carries the most weight, approximately 71 percent. Ironically, the Kentucky unemployment rate declined to 5.6 in May. Not only is this a considerable one-month decline, but it is also the first time it has been below 6.0 percent since April 2005.

The Louisville Help Wanted Index fell by four points in May. This is the second-lowest value in its history. The Index dipped briefly to 33 in April 1958, which was shortly after the series was created. The Index last peaked in December 1999. During the 2001 recession the index fell sharply, and by January 2002 the series tapered off to a much slower decline. The Louisville Help Wanted Index has been negative for the last five consecutive months.

US Personal Income (less transfer payments) declined for the second time in three months. This is a troubling sign as several other US indicators have slowed or turned negative in the last three months. US Nonagricultural Employment growth slowed to 0.8 percent, its slowest rate since October 2005. US Retail Sales is the only positive component this month, but it too has slowed following two months of growth above eight percent.

Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete description of the Index of Leading Indicators and methodology was published in the University of Kentucky Center for Business and *Economic Research Kentucky Annual Economic Report, 2000*.



About the Indicators

Kentucky Reference Series

Inflation-adjusted personal income less transfer payments and policy-adjusted general fund tax receipts are combined to form the GOEA composite reference series.

Kentucky Leading Indicators

- **GOEA Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: Lumber products, chemical and allied products, rubber and plastic products, fabricated metals, and transportation equipment.
- **GOEA Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly.
- **U.S. Manufacturing and Trade Sales:** This series outperformed Kentucky sales tax receipts and U.S. total retail sales. Current manufacturing and trade sales help form the basis for business expectations for the immediate short run. Since production and investment do not occur instantaneously, the formation of expectations (manifested through current manufacturing and trade sales) should slightly lead the business cycle.
- **U.S. Manufacturer's New Orders Index:** This index has two components: US Manufacturer's New Orders for Nondefense Capital Goods and US Manufacturer's New Orders for Consumer Goods and Materials. Separately these two series slightly missed one or two turning points in the official reference series. But together they preceded each turning point.
- **Louisville Help-Wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.

Table Notes:

- 1) Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- 2) More information is available on our website, www.osbd.state.ky.us.

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**SELECTED KENTUCKY ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

	2005												2006				
	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY				
KY Leading Index (1992=100)	108.5	108.8	108.8	108.9	108.8	109.2	109.4	109.5	109.6	109.3	109.4	109.3	109.0				
% Chg Previous Month SAAR	0.4	3.6	-0.5	1.6	-1.5	4.1	2.8	0.8	1.3	-3.5	2.1	-1.7	-3.5				
% Chg Same Month Last Year	0.5	0.9	1.0	0.9	0.8	1.1	1.2	1.1	1.3	0.8	1.1	0.8	0.4				
KY Leading Index Diffusion Index	60.0	63.3	60.0	60.0	60.0	63.3	70.0	63.3	70.0	63.3	66.7	60.0	53.3				
KY Coincident Index (1992=100)	129.9	130.4	130.4	129.6	130.2	130.6	131.1	131.6	131.7	131.8	132.0	132.5	132.6				
% Chg Previous Month SAAR	2.1	4.5	0.2	-7.5	6.0	3.6	4.8	4.8	0.2	1.3	2.1	4.1	0.8				
% Chg Same Month Last Year	1.9	2.4	2.1	1.2	1.8	1.6	1.8	1.1	1.8	1.7	1.8	2.1	2.0				
KY Nonag Employment (000s)	1,823.3	1,826.1	1,822.7	1,831.1	1,832.1	1,833.4	1,833.9	1,836.0	1,838.5	1,836.7	1,839.6	1,843.4	1,845.7				
% Chg Previous Month SAAR	1.4	1.9	-2.2	5.7	0.7	0.9	0.3	1.4	1.6	-1.2	1.9	2.5	1.5				
% Chg Same Month Last Year	1.7	1.6	1.6	1.7	1.6	1.6	1.5	1.4	1.6	1.2	1.3	1.2	1.2				
KY Mfg Employment (000s)	263.1	263.0	256.8	261.9	262.1	263.0	262.7	262.0	261.8	261.9	261.0	260.8	260.2				
% Chg Previous Month SAAR	-1.4	-0.5	-24.9	26.6	0.9	4.2	-1.4	-3.2	-0.9	0.5	-4.0	-0.9	-2.7				
% Chg Same Month Last Year	-0.4	-0.4	-0.5	-0.9	-0.7	-0.3	-0.5	-0.5	-0.4	-0.3	-0.8	-1.0	-1.1				
KY Unemployment Rate (%)	6.0	6.1	6.2	6.2	6.4	6.4	6.4	6.5	6.3	6.3	6.0	6.1	5.6				
KY Index of Initial UI Claims	102.6	103.3	103.2	103.0	100.5	102.8	103.5	104.0	105.3	104.1	104.2	104.2	103.0				
% Chg Previous Month SAAR	-6.9	8.9	-1.7	-2.3	-25.7	32.0	8.6	5.8	16.3	-12.8	0.9	-0.1	-12.4				
% Chg Same Month Last Year	0.2	0.9	1.5	0.8	-2.4	-0.3	0.8	0.7	2.6	0.7	1.0	1.0	0.4				
KY Labor Intensity Index (1992=100)	105.1	105.1	105.0	105.0	104.9	105.0	105.0	104.9	105.2	105.1	105.2	105.0	105.0				
% Chg Previous Month SAAR	-2.6	0.5	-2.0	0.1	-0.7	1.4	0.0	-1.0	2.8	-0.5	0.6	-1.7	-0.7				
% Chg Same Month Last Year	0.1	0.2	0.2	0.0	-0.1	0.1	0.1	-0.1	0.1	0.0	0.0	-0.3	-0.1				
Louisville HWI (1992=100)	39.0	41.0	41.0	46.0	56.0	54.0	52.0	52.0	44.0	42.0	40.0	39.0	35.0				
% Chg Previous Month SAAR	36.6	82.2	0.0	297.8	959.6	-35.4	-36.4	0.0	-86.5	-42.8	-44.3	-26.2	-72.7				
% Chg Same Month Last Year	-18.8	-19.6	-8.9	-2.1	40.0	31.7	23.8	26.8	4.8	2.4	0.0	2.6	-10.3				
GF Total Tax Receipts (\$ mill)	525.6	738.7	573.9	555.1	778.4	632.7	631.1	836.3	681.4	508.0	598.0	756.5	705.2				
% Chg Same Month Last Year	9.6	16.6	10.5	8.1	18.8	12.3	7.4	17.8	3.3	1.4	5.2	-6.4	34.2				
GF Sales & Use Receipts (\$ mill)	216.1	219.6	238.5	217.4	229.6	235.6	218.6	228.8	289.0	191.1	204.5	230.5	235.4				
% Chg Same Month Last Year	5.1	9.9	5.5	2.7	11.1	5.2	8.7	5.1	6.5	8.4	2.2	2.8	8.9				
GF Income Tax Receipts (\$ mill)	215.3	266.3	238.1	250.8	278.0	259.3	234.0	254.3	220.9	199.1	171.4	340.2	213.1				
% Chg Same Month Last Year	13.6	-1.4	6.2	2.2	2.1	3.8	1.7	-1.8	-12.6	-14.0	-2.6	-17.8	-1.0				

SELECTED U.S. ECONOMIC INDICATORS SEASONALLY ADJUSTED

	2005				2006									
	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	
US Leading Index (1996=100)	135.6	137.1	136.9	137.0	135.8	136.9	138.2	138.5	139.1	138.4	138.9	138.7	137.9	
% Chg Previous Month SAAR	0.9	14.1	-1.7	0.9	-10.0	10.2	12.0	2.6	5.3	-5.9	4.4	-1.7	-6.7	
% Chg Same Month Last Year	1.7	2.5	2.0	1.9	1.0	1.9	2.2	1.8	2.4	1.5	2.6	2.4	1.7	
US Coincident Index (1996=100)	119.8	120.2	120.5	119.5	120.1	120.5	121.2	121.6	121.8	122.0	122.3	122.5	122.6	
% Chg Previous Month SAAR	3.1	4.1	3.0	-9.5	6.2	4.1	7.2	4.0	2.0	2.0	3.0	2.0	1.0	
% Chg Same Month Last Year	2.2	2.6	2.6	1.4	2.0	1.9	2.3	1.4	2.2	2.3	2.4	2.5	2.3	
US Nonag Employment (Mil.)	133.2	133.4	133.6	133.8	133.8	133.9	134.2	134.4	134.5	134.7	134.9	135.0	135.1	
% Chg Previous Month SAAR	1.0	1.5	2.2	1.6	0.4	0.3	3.2	1.3	1.4	1.8	1.6	1.0	0.8	
% Chg Same Month Last Year	1.4	1.5	1.6	1.7	1.6	1.3	1.5	1.5	1.6	1.5	1.5	1.4	1.4	
US Unemployment Rate (%)	5.1	5.0	5.0	4.9	5.1	4.9	5.0	4.9	4.7	4.8	4.7	4.7	4.6	
US Manufacturer's New Orders Index (1996=100)	129.6	129.5	125.5	129.9	126.6	128.0	132.3	132.6	127.8	127.4	131.8	128.8	128.6	
% Chg Previous Month SAAR	69.7	-0.5	-31.6	51.4	-26.3	13.6	49.2	2.5	-35.6	-3.7	50.1	-24.6	-1.6	
% Chg Same Month Last Year	4.8	4.7	0.4	4.8	3.0	5.5	6.0	5.8	2.8	2.5	7.3	3.8	-0.8	
US Initial Claims for UI (000s)	335.5	323.9	319.6	317.2	393.4	338.9	315.6	310.4	286.3	306.0	308.9	314.8	333.5	
% Chg Previous Month SAAR	28.3	-34.4	-14.8	-8.6	1224.4	-83.3	-57.5	-18.1	-62.1	122.2	12.0	25.5	99.9	
% Chg Same Month Last Year	-2.4	-5.3	-7.2	-7.0	16.6	2.5	-4.0	-4.6	-14.2	-5.1	-9.8	-4.2	-0.6	
US Industrial Production Index	107.4	108.3	108.3	108.6	107.2	108.4	109.4	110.4	110.3	110.7	111.2	112.2	112.3	
% Chg Previous Month SAAR	2.8	10.0	-0.2	3.5	-14.7	14.6	11.7	12.0	-0.9	4.3	5.6	10.3	1.8	
% Chg Same Month Last Year	2.4	3.7	3.1	3.1	2.0	2.4	3.2	3.5	3.2	3.1	3.7	4.6	4.5	
US Personal Income Less Trans. (Bil. 2000 chained)	7,822.9	7,862.9	7,898.4	7,561.4	7,855.0	7,846.7	7,903.5	7,945.0	7,936.1	7,958.6	7,955.8	7,974.4	7,965.8	
% Chg Previous Month SAAR	3.8	6.3	5.6	-40.7	58.0	-1.3	9.0	6.5	-1.3	3.5	-0.4	2.8	-1.3	
% Chg Same Month Last Year	3.1	3.7	3.5	-1.1	2.8	1.7	2.0	-1.6	1.8	1.9	1.7	2.3	1.8	
CPI, All Urban (1982-84=100)	194.0	193.9	195.1	196.2	198.6	199.1	197.8	197.7	199.0	199.1	199.8	201.0	201.9	
% Chg Previous Month SAAR	-0.6	-0.6	7.7	7.0	15.7	3.1	-7.6	-0.6	8.2	0.6	4.3	7.5	5.5	
% Chg Same Month Last Year	2.9	2.5	3.1	3.6	4.7	4.4	3.5	3.4	4.0	3.6	3.4	3.6	4.1	
US Retail Sales (\$Billions)	338.5	343.7	351.5	345.1	346.6	347.4	349.6	351.1	361.7	358.7	361.2	363.6	364.1	
% Chg Previous Month SAAR	-4.7	20.1	30.7	-19.6	5.1	3.1	7.8	5.1	43.2	-9.7	8.7	8.3	1.6	
% Chg Same Month Last Year	5.8	9.6	9.9	8.1	6.6	6.2	6.7	5.8	9.4	7.4	8.0	7.0	7.6	
Manufacturing & Trade Sales (\$thous. 2000 chained)	944.3	948.4	950.4	951.8	944.2	946.0	958.2	965.0	975.7	973.5	978.5	974.8	*978.2	
% Chg Previous Month SAAR	8.6	5.3	2.6	1.8	-9.1	2.3	16.5	9.0	14.1	-2.7	6.3	-4.4	4.3	
% Chg Same Month Last Year	3.8	4.2	3.8	3.4	2.5	2.5	3.6	3.0	3.8	4.3	4.9	4.0	3.6	
US Consumer Expectations (1966=100)	75.3	85.0	85.5	76.9	63.3	63.2	69.6	80.2	78.9	74.5	76.0	73.4	68.2	
% Chg Previous Month AR	-23.5	328.0	7.3	-72.0	-90.3	-1.9	218.2	448.0	-17.8	-49.8	27.0	-34.1	-58.6	
% Chg Same Month Last Year	-7.7	-4.0	-6.3	-12.8	-28.1	-24.6	-18.3	-11.8	-7.9	-11.7	-8.2	-4.7	-9.4	
Ave. Prime Interest Rate (% NSA)	5.98	6.01	6.25	6.44	6.59	6.75	7.00	7.15	7.26	7.50	7.53	7.75	7.93	
*ARIMA estimation														